Isn’t it enough to just measure GDP?

Posted on 31 August 2011

Although we've told you what we mean by progress, you might be asking why measure it? Isn't measuring economic growth - looking at GDP - enough to see if Australia's progressing?

There is growing consensus around the world that we need to look beyond conventional economic measures to see if life is getting better. The importance of measuring progress is highlighted in the Istanbul Declaration from the second OECD World Forum in 2007 which said *"the availability of statistical indicators of economic, social, and environmental outcomes and their dissemination to citizens can contribute to promoting good governance and the improvement of democratic processes. It can strengthen citizens' capacity to influence the goals of the societies they live in through debate and consensus building, and increase the accountability of public policies."*

This is a long way of saying that looking at not just economic, but also social and environmental data, is good for a democracy because it allows the public to hold the government to account.

It is important to realise that Gross Domestic Product (GDP) also allows us to do that, in regard to economic performance. And it is certainly an important measure that should, and will be retained by the ABS into the future. However, there is growing international consensus that, while GDP is a good measure of economic production, it's not a good measure of overall societal progress.

GDP has been used widely to indicate progress in the past. It is a single number that sums up key aspects of the economic activity in an economy. There are international standards on how to calculate it, so it can easily be compared across different countries and over time.

In some ways, it is straight forward, since it combines the monetary value attached to the production of goods and services in a way that summarises that activity. However, this means it only takes in to acccount things that have a monetary value - things that can be bought and sold. If there is no monetary value attached to something, it does not contribute to the GDP. This means important aspects of the society and the environment are out of the scope of GDP.

Also, because the GDP summarises complex processes, it can mask important details. For example, you would not want your car to summarise all its performance information into one indicator. You need to know about several different aspects of performance separately, eg, how much petrol you have left, temperature of the engine, the speed you are travelling, and so on. Without having this information separately, you could not make driving decisions.

Of course, much of this more detailed information is freely available from ABS economic statistics and other data providers. ABS also has a very comprehensive program of social statistics, and are further developing our environmental statistics. However, these statistics don't necessarily gain the same degree of attention that GDP does.

Internationally, the main impetus for this move to go beyond GDP has been the Stiglitz Commission. It looked at *"the limits of GDP as an indicator of economic performance and social progress... to consider what additional information might be required for the production of more relevant indicators of social progress..."* The commission recommended to *"shift emphasis from measuring economic production..."*.

Return to Home

Search

Search this Blog

Recent Entries

The consultation continues...
Our last regular blog post
Blog contributions

Recent Comments

Towards Q2: Tomorrow&
'Things that matter
'Things that matter

Archive

November 2011 (4)
October 2011 (13)
September 2011 (91)
August 2011 (6)
July 2011 (1)
April 2011 (3)

Comments

#1 James Fitzgerald
2/09/2011 9:52:27 AM Isn't it enough to just measure GDP?

Human activity (everything we do) appears to be very much controlled by economics, commerce and the transfer of perceived values. Why don't we work towards using these as merely tools supporting human activity, in the same way that language enables (but does not lead) human activity? If we get on with what we need to do and like to do and allow economics (and language) to support that. Measure activity not production

Money, gold, diamonds, property and the like only have a perceived value. Connectedness, cooperation, security, basic needs, creativity, entertainment, joy and wonder all have much more value than a piece of gold.

#2 Reet Simmul
2/09/2011 11:44:35 AM Isn't it enough to just measure GDP?

We need a society where there is an equal opportunity for all to satisfy basic human needs as housing and safe environment to live, education, social and medical services. As we see the gap between the rich and poor widening we see social unrest increasing. Our politicians are encouraging a policy of fear and hate . We get the politicians we deserve! Maybe it comes stems from enjoying good life for so long that we have not been better informed about democracy and accept "I'm all right Jack" instead of having compassion for those who are not lucky in this lucky country. Education of the young would be a good place to start. Otherwise we will have greater problems with social unrest.

#3 ppianto
4/09/2011 8:49:09 PM Isn't it enough to just measure GDP?

It is fairly clear what GDP measures. Even if this doesn't include absolutely everything that we would consider important in terms of wellbeing or progress it has been shown to be correlated to many of these. For example it has be shown to be positively correlated to:

Education - see Friedrich Huebler 2005

Health and longevity - see United National Development Report

Environment - see Environmental Kuznets Curve

Employment - see any number of studies including BEA and ABS

Income distribution - Nancy Birdsall 2007

Governance - Kaufman and Kray 2003

Happiness - see Betsey Stevenson and Justin Wolfers (2008)

etc etc.

Given these relationships shouldn't GDP be most prominently included in any suite of indicators of progrss?

#4 Serhat (MAP team)
6/09/2011 9:31:22 AM Isn't it enough to just measure GDP?

Hi ppianto

Thanks for your comment. While there are correlations between GDP and the areas you mentioned, GDP was never designed to measure societal progress. It measures a very specific economic activity - production - and as such doesn't take into account things like sustainability, depletion of natural resources, health and wellbeing of the population, etc.

We're not trying to replace GDP as a measure of economic activity. It does that job very well. What this project and others around the world are doing is raising the importance of other measures that provide a more comprehensive picture of progress. Like the example we used, when you drive a car, you look at more than just the speed. You also need to look at other indicators like fuel, temperature, etc. The same goes for progress. It's important to look at a variety of measures to have a better picture of how our nation is going.

#5 David H
7/10/2011 10:41:16 AM Isn't it enough to just measure GDP?

Good point Serhat,

GDP is a good measure of economic production and correlates well with many other areas that are considered important in Australian life, but it does not measure them.

If we want to best understand how Australia is tracking we shouldn't just look at a broad single indicator that correlates well with what we actually want to measure and that can only give us only a very ambigous understanding of overall progress. For example if production risis in a time when other aspects of life are in decline (theoratically in times of total war?) then GDP certainly wouldn't be telling the true story of progress.

We shouldn't settle for this, but rather if we know what Australians consider to be the most important aspects of life, then we should strive to clearly measure these things directly.

On a further point, unlike economic activity, the elements of Australian life can't be measured in comparative units (like dollars $$). For example, we can't say that our overall progress in the area of health over the last decade (2 or 3 years of added life expectancy over the last decade) in any way balances out the additional 100 animal species who have become threatened with extinction over the same period. As we can't value progress in different areas on an equal basis, then we can't create a GDP like index of progress without making value judgements about the price of wellbeing.

So wrapping it up, we shouldn't use GDP to measure other things that are important to Australian life. If we have the ability to determine what they are, and how to measure them, then we should be doing this. We also can't simplyfy any measure of progress into a single GDP like indicator, as this process requires us to make valued judgements about whether extra income and wealth can counterweight regress in other areas of life and where the equalibrium lies.

Subject:

Isn't it enough to just measure GDP?

Name:

Email:

Add Comment:

© Australian Bureau of Statistics 2011 All Rights Reserved | Privacy Policy | Disclamer and Terms of Use | Contact Us